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Hilton Root

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Hoover Institution

"Mobilizing the State as Public Risk Mitigator"

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Hilton L. Root is a senior research fellow at the Hoover Institution and, since 1995, associate professor, by courtesy, in the Public Policy and the International Policy Studies Programs at Stanford University.

His expertise encompasses governmental transition and the political economy of growth; development policy, theory and practice; and social theory.

As chief consultant on governance at the Asian Development Bank (1994-97), he designed the Banks governance policy, and also initiated the restructuring of the public administration of Sri Lanka, the most comprehensive reform of that nations civil service since independence in 1948. Through seminars and fact-finding missions to countries throughout South-East Asia, as consultant with international development organizations since 1992, he has helped define policies on governance, and enriched the dialogue between policy makers of developing nations and university research organizations.

Dr. Root organized and directs the Hoover Initiative on Economic Growth and Democracy, a research-oriented advisory group whose mission is to explore the relationship between economic performance and political choice for effective policy formulation and implementation in developing countries.

He is currently assisting governments in South Asia in the reform of economic institutions and governance structures. Work from this activity, " India: Asias Next Tiger ," will be previewed in Hoovers *Essays in Public Policy* , *The National Interest* , and the *Far Eastern Economic Review* .

Dr. Roots research on international development policy in India, China, and Indonesia is documented in articles written for numerous academic journals in the United States and abroad. He is a frequent contributor on these topics to the *Asian Wall Street Journal* and the *International Herald Tribune* .

Roots most recent books include *Small Countries, Big Lessons: Governance and Rise of East Asia* (Oxford University Press, 1996) and (with J. Edgardo Campos of the World Bank) *The Key to the Asian Miracle: Making Shared Growth Credible* (Brookings Institution, 1996).

He also authored *The Foundation of Privilege: Political Foundations of Markets in Old Regime France and England* (University of California Press, 1994) and *Peasants and King in Burgundy: Agrarian Foundations of French Absolutism* (University of California Press, 1987; paperback 1992), which was a finalist for the Gershoy Prize for best book in European History. He is also recipient of the Chester Higby Prize for the Best Published Article in Modern European History of the American Historical Association, 1986.

Before his affiliation with the Hoover Institution, first as Peace Fellow in 1992-93, he was Janice and Julian Bers Assistant Professor in the Social Sciences, University of Pennsylvania, 1988-91. He was also assistant professor of history at the University of Pennsylvania from 1985-88, and Mellon Postdoctoral Instructor of History at the California Institute of Technology (1983-85).

Root holds a B.A. in economics from the State University of New York at Buffalo, an M.A. in economic history from the University of Michigan, and a Ph.D. from the University of Michigan in economic history, concentrating on European economic development.

Synopsis:

Economic historian Hilton Root came to Mershon to discuss his newest book, *Capital and Collusion* (Princeton University Press 2005),in which he proposes a new analytical framework for economics. While most current economic theories propose that market transactions manage risk most efficiently, Root contended that economies in the developing world do not operate in this manner, so in order to bring the developing economies up to pace with major industrialized countries, policy makers must distinguish between “measurable risk” and “un-measurable opportunities,” as economists had done in the early 20 th century. His plan calls for a “resurrection of those distinctions.” Conditions in developing economies are often associated with these un-measurable risks because of a lack of reliable institutions, which, he claimed, deters potential growth and investment. Which levels the playing field? Why is it important to factor these in when talking about developing countries?

While working as a consultant for the Asian Development Bank, Root helped governments in the developing world to reform their economic institutions in accordance with his conclusions that governments must play a role in risk mitigation. He concluded that there is a growing wealth gap between the developed and undeveloped world that is “wider than it has ever been in the history of the world,” Root contended. The reason for this gap, he suggested, is because there is pervasive uncertainty caused by a lack of credible, well-functioning institutions. Growing inequality in the developing world may lead to a rise in corruption and diminishing opportunities for investment.

According to Root there are three main sources of uncertainty preventing further economic development in developing countries: the inability to make estimates of social risks, the presence of polarized societies which force the government to spend money on non-tradable goods such as education and health care, and the lack of policy credibility as a result of a divergence of views of how policy should be formulated. These three sources of uncertainty result in policy decisions that do not represent the welfare of the citizens, but rather the self-interested concerns of the leadership in developing countries, he added.

In his work, Root focuses on countries which economically fall between not-fully-developed and the poorest countries in the world, including China , India and the Central Asian republics. He likened the economic development of these countries to the early development of the United States in the early 20 th century and Germany in the 19 th century when state institutions were not designed to instill investor confidence in the growing industrial and commercial sectors, much like the countries of the developing world today.

By using these modern, developed economies as models of how a state can play an integral role in leading its economy from less developed to developed, he concluded that governments must mitigate risks in order to encourage investment and productivity through a mix of public and private support. For Root, the New Deal programs of the 1930s illustrated how the U.S. government was able to alter perceptions of risk and bring about a stock market rebound. By investing in the country's infrastructure, Washington was able to instill confidence among its citizens, encouraging private investment. By following a similar model of state involvement, Root suggested countries will be able to better manage risk and spur much needed investment.

Root pointed out that there has been almost no progress in achieving the United Nation's “Millennium Development Goals,” which laid out a plan in 2000 to reduce poverty and disease and improve education and equality around the world by the year 2015. He contended this is a result of a lack of state institutions to adequately manage these problems. He called for new government institutions, bilateral agreements and international organizations to decrease the level of uncertainty and un-measurable risk and to deal with lagging development more effectively.